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DEPARTMENT OF STATE

8115013 thru 8115017

Washington, D.C. 20520

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5/12NSC review
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TO: SEE DISTRIBUTION

FROM: L. Paul Bremer, III
Executive Secretary *gmk for*

SUBJECT: National Security Council Meeting Friday,
May 15, 10:00 a.m.

Forwarded herewith are three papers on Central America for consideration at the NSC meeting. The Top Secret policy paper on Central America and the Caribbean was circulated in late March. It is reproduced herein for the convenience of addressees. Also attached are two supplementary papers addressing: (1) Measures to control or prevent armed insurgency and (2) U.S. support for economic development and Caribbean cooperation.

DISTRIBUTION:

NSC - Mr. Richard Allen (8115013)
DOD - Mr. Jay Rixse (8115014)
JCS - Gen. Jim Granger (8115015)
OVP - Ms. Nancy Bearg Dyke (8115016)
CIA - Mr. Bob Gates

Attachments:

As stated.

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State Dept. review completed

RECOMMENDATIONS

1. That the NSC approve the general strategy presented in this paper on U.S. Policy in Central America and the Caribbean:

APPROVE _____ DISAPPROVE _____

2. That NSC guidance on the relative priority, resource levels and policy commitment that it intends are most closely approximated in:

Package A _____

Package B _____

3. That the NSC authorize the Department of State to consult with Congress, our Allies, and key countries in Latin America and the Caribbean concerning our proposed policies:

APPROVE _____ DISAPPROVE _____

4. That the NSC authorize the Interagency Group subsequent to the above consultations to develop specific courses of action, risk assessments and funding requirements within the general guidelines of the approved Package and return to the NSC for further consideration before actions are undertaken:

APPROVE _____ DISAPPROVE _____

EXECUTIVE SUMMARY OF STRATEGY
PAPER FOR THE NSC ON

U.S. POLICY IN CENTRAL AMERICA
AND THE CARIBBEAN

ISSUE

This paper seeks NSC approval of a multifaceted and comprehensive long-term U.S. strategy for restoring stability in Central America and the Caribbean. It also seeks NSC guidance in principle on the blend of political, economic and military instruments to be used to implement the strategy and the overall level of resources and policy commitment the NSC is prepared to approve. Subject to the President's approval of the general strategy and level of effort, we will prepare detailed program proposals and specific cost estimates for further NSC consideration.

DISCUSSION

Armed insurgency, strongly supported by Cuba, threatens U.S. interests in Central America and the Caribbean. Our overriding goal is to defeat Cuban-supported insurgency and reduce Cuban influence, and to do so in such a way that preserves other important U.S. interests in the hemisphere and around the world. Just as the challenge is a multifaceted one, so must be our strategy to meet the challenge. While Cuban support of insurgency is an immediate problem that must be addressed, we must recognize that the insurgency has its roots in the long-standing political, economic and social problems which provide an all-too-fertile ground for subversion and violent change. Therefore, we need a carefully balanced and integrated strategy in which anti-insurgency and anti-Cuban efforts will be accompanied by prompt and decisive actions in the political and economic realms. Such a strategic approach is necessary not only to address all aspects of the challenge, but also to maximize domestic and international support for our efforts. We are particularly concerned that a policy largely based on -- or seen to be based on -- military measures would generate such opposition among the American public, the Congress and our Allies as to jeopardize their support and ultimately the strategy itself.

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THE STRATEGY

As detailed in the full paper below, U.S. strategy would address three broad strategy dimensions, each of which we have divided into "strategic elements" with supporting "illustrative courses of action" and "preliminary evaluations." We have used the caveats "illustrative" and "preliminary" to underscore that, subject to Presidential approval of the general strategy, detailed courses of action will be prepared, evaluated and submitted to the NSC for consideration. In outline, our proposed strategy is:

A. Efforts to deal internally with the challenges.

Strategic Element: Measures in Central America and the Caribbean to Control or Prevent Armed Insurgency (effective security assistance to friendly governments, aid to forces opposing Cuban-backed governments,

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Strategic Element: Effective U.S. Support for Improving the Political, Economic and Social Conditions of Central America and the Caribbean, the Breeding Ground of the Insurgency Virus (increased economic assistance, a "Reagan Plan for Caribbean Basin Cooperation," support for early and credible elections, assistance to the government in curbing abuses against the people by the militaries)

Strategic Element: Measures to get Nicaragua back on the Course Toward Pluralism and Away from Castro (steps to assist the existing government back to moderate paths or to replace it with moderate forces)

B. Efforts aimed at the sources: i.e. to alter Cuban and Soviet behavior.

Strategic Element: Measures vis-a-vis Cuba to end or Curtail Cuban Support

Strategic Element: Measures to Induce the Soviet Union to Withdraw its Support of Cuban Adventurism

NOTE: U.S. policies in this dimension of the strategy will be studied in a separate policy paper commissioned by the SIG given the global nature of Cuban and Soviet support of insurgencies and the far-reaching implications of any U.S. measures against Cuba or the Soviet Union.

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C. Initiatives to generate support for our policies.

Strategic Element: Consultations with Allies on U.S. Policy toward Cuba, Central America and the Caribbean (quiet diplomatic missions to seek political support for our balanced strategy and cooperation in increased assistance to the region)

Strategic Element: Consultations with Congress (a legislative action program aimed at fostering support for economic and security measures and, if necessary, for sanctions against Cuba and Nicaragua)

Strategic Element: A Worldwide Information Campaign (a massive effort, perhaps kicked off with a major Presidential address setting forth U.S. policy for the region)

OPTIONS ON RESOURCES AND LEVEL OF EFFORT

In concluding that a broad and integrated strategy is needed, we recognize there are any number of combinations of courses of action and variations of emphasis. The full NSC paper below presents two illustrative general policy combinations which represent: (a) a high-priority enhanced (above inherited levels) policy commitment, but attentive to costs to U.S. programs in other parts of the world, and (b) a top-priority, high-intensity, all-out policy commitment. A highly tentative estimate to indicate a rough order of magnitude between the two packages would put cost to the U.S. in terms of additional economic and security assistance to the region in FY 1982 at some \$330 million in the "enhanced" package and \$530 million in the "all-out" package. In subsequent years official assistance could be augmented by, or partially substituted by, resource transfers to the region resulting from a major Administration initiative to establish a new approach to fostering stable regional economic development through a Caribbean Basin Cooperation Agreement.

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STRATEGY PAPER FOR THE NSC

U.S. POLICY IN CENTRAL AMERICA
AND THE CARIBBEANI. Strategic Overview

The most aggravated insurgent situation in the Caribbean and Central America exists in El Salvador, where substantial U.S. security assistance efforts are already underway to buy time and to stabilize the immediate threat. The insurgency challenges faced by Guatemala and Honduras are less advanced, but will increase unless effectively countered. In Nicaragua and Grenada, Cuban influence has already reached an unacceptably high level. In Costa Rica, traditional democratic institutions are being undermined by severe economic problems. Similar economic difficulties undermine the democratic institutions of the other islands of the Caribbean, offering potentially fertile ground for Cuban subversive efforts.

U.S. interests call for a Central America and Caribbean of stable, prospering and moderate states friendly to the United States and free of significant influence from powers hostile to us. Cuba's objectives in the region are to overthrow existing governments, replace them with Marxist regimes and diminish U.S. influence. Cuba, with indirect Soviet support, has trained, coordinated, supplied and advised insurgents and would-be insurgents throughout the region. The SIG has directed that actions vis-a-vis Cuba to end or curtail its support for Central American insurgents be studied separately as part of a broader U.S. policy for addressing Cuban and Soviet support for Marxist insurgent groups around the world. This study will be forthcoming shortly.

For twenty years successive U.S. administrations have sought to cope with the Cuban challenge, most usually on an ad hoc and random basis. It is time that the United States developed a broad and enduring program for dealing with the Cuban threat. We have spoken publicly of our intentions in this regard, and our credibility will suffer if we do not match our words with effective action. Cuban adventurism must be met in our own front yard not only to defend our local interests, but also to defend our global stakes in the rule of law and international order; a failure to deal with the Cuban problem will only embolden our adversaries and undermine our Allies and friends worldwide.

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It is important that we understand the precise nature of the threat. There exists throughout much of the region long-standing and deep-rooted political, economic, and social problems which provide an all-too-fertile ground for subversion and violent change. Cuba, with Soviet encouragement and support, is successfully exploiting these conditions, using a range of military and political instruments.

But just as the challenge is multifaceted, so must be our response. It is our view that to succeed we must adopt a carefully balanced and integrated strategy in which anti-insurgency and anti-Cuban efforts will be accompanied by prompt and decisive actions in the political and economic realms. Such a strategic approach is necessary, not only to address all aspects of the problem, but to maximize domestic and international support for our efforts. Indeed, we are particularly concerned that a policy largely based on -- or seen to be based on -- military measures would generate such opposition among the American public, the Congress and our Allies as to jeopardize their support and ultimately the strategy itself.

II. Strategy Dimensions and Elements

A successful strategy for dealing with the Cuban challenge must be both balanced and comprehensive. Three basic dimensions are necessary:

A. Efforts to deal internally with the challenge, i.e. measures to control or prevent armed insurgency and to effectively support improved political, economic and social conditions;

B. Efforts aimed at the sources, i.e. measures to alter Cuban and Soviet behavior through inducements or sanctions;

C. Initiatives to generate support for our policies in the U.S. public and Congress, among our Allies and in world opinion generally.

We have divided these three broad strategy dimensions into eight "strategic elements," with supporting illustrative courses of action and preliminary evaluations.

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1st Strategic Element: Measures in Central America and the Caribbean to Control or Prevent Armed Insurgency

Illustrative Courses of Action

-- DOD security assistance and training to correct serious deficiencies in the armed forces of El Salvador, Guatemala and Honduras; [REDACTED]

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[REDACTED]

-- security and training assistance to the security forces of the Caribbean islands.

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Preliminary Evaluation

Training and materiel security assistance for the armed forces is do-able, [REDACTED]

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[REDACTED] Congressional approval is necessary and probably would be forthcoming in the strategy context here. In furtherance of our overall strategy, U.S. military presence and visibility in-country should be as low and as unpublicized as possible. If kept in balance with other elements of the strategy, the risks are manageable.

2nd Strategic Element: Effective U.S. Support for Improving the Political, Economic and Social Conditions of Central America and the Caribbean, the Breeding Ground of the Insurgency Virus

Illustrative Courses of Action

A. Increased U.S. and international economic assistance to Central America and the Caribbean deliberately designed and packaged to help neutralize insurgent propa-

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ganda, enhance U.S. and Western credibility and improve the image of the respective governments:

-- Significant increases above previous economic assistance levels for Central America are necessary, for political, psychological and propaganda impact, as well as on strict economic grounds.

-- Economic assistance programs in the Caribbean should be examined and increased as necessary; existing assistance mechanisms should be reviewed to determine their responsiveness to U.S. interests;

-- the U.S. should take the lead in arranging increased economic assistance for Central America and the Caribbean from other donor nations and international financial institutions.

-- appropriate performance standards must be developed to assure that economic assistance programs are seen by the people of Central America and the Caribbean to be directed at improving their standards of living.

B. Develop a "Reagan Plan for Caribbean Basin Cooperation." Many expert observers doubt that, regardless of levels of outside official economic assistance, the tiny-to-small economies of the Caribbean and Central America will ever become self-sustaining without a special relationship to the markets of North America. The Administration could explore a new Caribbean Basin Cooperation Agreement providing for:

- One-way free trade with the U.S. and Canada (no doubt there would have to be transitional quantity safeguards on some sensitive products such as textiles, Puerto Rican rum, some vegetables).
- Some trade concessions by Mexico and Venezuela (and possibly Brazil) to the other members.
- Stabilization loans to primary producers when prices fall below a certain trend; all members would participate in financing.
- Political conditionality -- i.e., cut off if a country does not move toward pluralism.
- Initiative to be taken jointly by Mexico, Venezuela and U.S. (and possibly Brazil).

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C. Quietly but firmly help authorities of each government develop early and credible electoral processes to legitimize them in the eyes of their own people and U.S. and world opinion; elections -- not negotiated power-sharing with the left -- is the political solution that meets our policy goals while at the same time providing a positive focus for our consultative and information programs.

-- the U.S. must heavily emphasize in all public discussions of El Salvador the electoral process that is getting underway and seek means (e.g. international supervision or oversight) to enhance the credibility and fairness of the process both in El Salvador and abroad.

-- in Guatemala and Honduras we must impress upon the governments that our economic and security assistance is sustainable only if accompanied by firm and effective government measures setting up credible processes leading to early national elections. The U.S. should assure the continued progress in Honduras toward elections and insist with Guatemalan authorities that they take prompt steps toward elections.

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D. Quietly but firmly help the authorities of each government to curb the excesses of their militaries which serve to alienate their populations and feed the insurgencies.

-- develop programs and training courses with Central American militaries for this purpose; identify appropriate and inappropriate military behavior; codes of conduct; military civic action programs; prevention of crimes against the population by the military, and punishment of crime when it occurs; propaganda campaign putting military in a favorable light.

Preliminary Evaluation

We believe that in the strategy context outlined here, Congress will support substantially increased economic assistance for Central America and the Caribbean. A major Administration initiative toward a special economic relationship with the Caribbean Basin would be a dramatic demonstration of long-term United States commitment to the region. Quiet but firm U.S. pressure on the Central American governments in

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the areas of economic and social progress, political reform and curbing military excesses is indispensable to the strategy; U.S. assistance should be linked to satisfactory performance. We cannot appear to be supporting a return to extreme right military dictatorships in Central America. In the Caribbean we must act now to increase support of the existing democratic structures before they are over-whelmed by economic and social problems. Our purpose here is not to engage in mindless coercion of governments over isolated inconsistencies with our values which ignore our larger concern for measured progress in broad terms toward political and economic stability. We believe that our initial expressions of support without exacting quids pro quo have established our bona fides and good faith and that we will be able to achieve the changes we seek through quiet, balanced diplomacy.

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3rd Strategic Element: Measures to get Nicaragua back on Course toward Pluralism and away from Castro: A Carrot and Stick Approach

Illustrative Courses of Action

A. In a forceful, private demarche to appropriate Nicaraguan leaders, delivered by our Ambassador after consultations with you, explain our Cuban denial policy and the unacceptability of (1) Cuban security links with Nicaragua and (2) emergence of a Marxist-Leninist, one-party state in Central America; invite Nicaragua to move toward free elections together with its Central American neighbors; offer resumption of U.S. assistance to and cooperation with a pluralistic, moderate Nicaragua. Our goal is to push the existing government back to moderate paths or promote its replacement by moderate forces.

B. Openly promote and encourage democratic institutions in Nicaragua. Work with Central American neighbors to support Nicaraguan moderates against the Sandinistas

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Preliminary Evaluation

The prospects of a demarche to Nicaragua are poor. Nicaragua is a special case in that the insurgency triumphed, and the problem is now excessive Cuban influence and growing radicalization of the regime. The Soviet and Cuban commitment to a Leninist-Marxist state in Nicaragua is high. Nevertheless, for reasons analogous to our approach to Cuba -- to protect our flank on the left -- a demarche to Nicaragua appears to be a necessary square to fill. In the context of the constructive U.S. strategy outlined here, U.S. concerns about the course of developments in Nicaragua may be shared sympathetically by some other regional players, such as Venezuela and Costa Rica. A U.S. public policy of staying in the background and letting Venezuela and others take the lead in urging early and free elections in Nicaragua is feasible.

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4th Strategic Element: Measures vis-a-vis Cuba to end or Curtail Cuban Support: A Carrot and Stick Approach

NOTE: Measures vis-a-vis Cuba will be examined in the context of the separate policy paper commissioned by the SIG. With regard to Central America and the Caribbean, the objective would be to put an end to effective Cuban support for insurgents before Cuban-supplied assistance reaches the area. A related issue is that of interdicting on the scene in Central America the infiltration of Cuban assistance to insurgents. Direct action in the target area itself against infiltration from Cuba, while not as directly challenging as would be measures directed against Cuba itself, would nevertheless be a high-risk operation. On balance, we believe the potential gains outweigh the risks. Infiltration from Cuba cannot be allowed to go unchecked, and can only be stopped by a reorientation of policy which makes clear that we will no longer tolerate Cuban exports of arms, troops and assistance to third world countries. Such a policy can only be successful if it is backed by the means to enforce this pledge and the will to use them decisively.

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5th Strategic Element: Measures to Induce the Soviet Union to Withdraw its Support of Cuban - Adventurism

NOTE: Measures vis-a-vis the Soviet Union will be examined in the context of the broader policy paper commissioned by the SIG. With regard to Central America and the Caribbean, we would make clear to the Soviet Union that we will no longer tolerate Cuba's support for insurgency in Central America and emphasize that the USSR cannot avoid responsibility for Cuban actions which they are in a position to influence. It is not clear, however, that we would need to invoke linkage formally. There is some evidence that the Soviet Union will not go to the mat for Cuba at a time when they are preoccupied with events in Afghanistan, Poland and elsewhere. If this is true, our insertion of this matter as a major issue in US-Soviet relations would be unnecessary and perhaps counterproductive in that the Soviets might require corresponding concessions from us elsewhere in return for easing off Central America -- a decision they may have already made. Consequently, there is no compelling need to approach the Soviets formally at this time. In the normal course of our dialogue, however, we should let it be known that our expectations of restraint encompass not only their behavior but that of their clients as well. Moreover, during the next six months we should measure Soviet reactions to our efforts and reconsider a formal demarche if the need arises.

6th Strategic Element: Consultations with Allies on U.S. Policy toward Cuba, Central America and the Caribbean

Illustrative Courses of Action

-- Subject to NSC approval of the strategy, diplomatic missions will be quietly dispatched to European allies and key Caribbean, Central and South American countries to consult on U.S. policy toward Cuba, Central America and the Caribbean. The approaches will follow-on from the earlier missions which alerted them to Soviet/Cuban support of insurgency. The principal purpose of the new approaches will be to counter fears of U.S. over-emphasis of a "military solution"; the emissaries will emphasize the U.S. commitment to political solutions through impartial elections and to sharply increased U.S. economic initiatives to attack the social and economic roots of discontent. They

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will also reiterate that the U.S. will not tolerate Cuban support for insurgency in Central America and the Caribbean. The emissaries will seek political support from the countries visited for our policies and their cooperation in increased economic assistance for the region.

Preliminary Evaluation

This element is an essential and integral part of our strategy. The emphasis should be to place into the broader strategic context of overall U.S. policy in Central America the U.S. determination to counter Cuban-supported armed insurgency which was the principal message of the Eagleburger and related consultations.

7th Strategic Element: Consultations with Congress

Illustrative Courses of Action

-- Subject to NSC approval of the strategy, we will prepare a legislative action program beginning with briefings and consultations with Congress aimed at fostering support for economic and security assistance measures and, if necessary, for sanctions against Cuba and Nicaragua.

Preliminary Evaluation

Only a balanced U.S. strategy as presented above will be likely to obtain and sustain Congressional support. A careful Legislative Action strategy must be developed and implemented in order to maximize the likelihood of Congressional support.

8th Strategic Element: A Worldwide Information Campaign.

Illustrative Courses of Action

-- We will need to develop a massive information campaign to inform U.S. and world opinion of the challenges in Central America and the Caribbean and U.S. policies to counter the challenges.

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-- The campaign could be kicked off with a major Presidential address definitively setting forth the enlightened, statesmanlike and clear U.S. policy for the region.

Preliminary Evaluation

We need to develop a major campaign: to present to American and foreign opinion an image of a Central America (a) on the road to democracy, moderation and economic development, and (b) struggling against Soviet/Cuban subversion; and to represent U.S. policy as firm, constructive and well-motivated.

III. Viable Policy Combinations

The strategy presented in this paper is a balanced and integrated one which addresses concurrently the three basic dimensions of the challenge. The previous Administration in its concentration on the underlying and regional causes of insurgency failed to address in time the fact of Cuban and Soviet support and, indeed, failed to attack even the domestic root conditions with adequate resources. We have considered the opposite approach of a "quick fix" solution, i.e. trying to end the problem through slamming the door on Cuban/Soviet support (either through negotiations or by force) or through military defeat of the insurgents on the ground. We will be studying further in a subsequent policy paper measures vis-a-vis the Soviet Union and Cuba. However, we have concluded that unless root social, economic and political causes are effectively addressed, insurgency will remain an ever-attractive alternative for the alienated populations.

In concluding that a broad and integrated strategy is needed, we recognize there are any number of policy combinations, and variations of relative emphasis on policy elements are possible. Below we present two illustrative general policy combinations which represent: (a) a high-priority, enhanced (above inherited levels) policy commitment, but attentive to costs to U.S. programs in other parts of the world, and (b) a top-priority, high-intensity, all-out policy commitment.

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PACKAGE A: ENHANCED BUT MODERATE

This option would recognize our acceptance of the nature of the threat and our readiness to act to meet it. Considerable resources would be made available, and we would run some risk of Cuban or Soviet reprisal. The objective would be to reduce Cuban influence in the region and to begin effectively to attack underlying causes, aiming for a not particularly dramatic but nevertheless enhanced effort to be sustained over time. Within this approach we would: 1/

-- survey and propose revised economic and security assistance programs, prioritizing from most pressing to least pressing;

-- expand current economic and security assistance efforts to address most pressing needs, in the light of competing needs from other regions;

-- increase MTT and other training throughout the region in response to requests and priority needs;

-- develop a major Administration initiative for Caribbean Basin Cooperation;

-- support early progress toward impartial political elections in Central America;

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-- encourage programs to end military abuses in Central America;

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1/ See note on page 12.

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-- engage in an extensive consultation and information campaign with U.S. public, Congress and allied and Latin American governments to build support for our policies;

NOTE: Measures vis-a-vis Cuba or the Soviet Union will be examined within the context of the broader policy paper commissioned by the SIG.

PACKAGE B: TOP PRIORITY, ALL-OUT

This option would require an effort to forge a consensus to act decisively against the Cuban threat. We would devote resources as required, and we would seek to substantially reduce or eliminate the threat emanating from Havana and to attack massively indigenous social, economic and political conditions. Under this option we would (above and beyond the measures in Package A):

-- carry out a major assistance effort in which Central America and the Caribbean would have high-priority claim in competition with other regions;

-- destabilize ruling factions in Nicaragua (and Grenada);

NOTE: Measures vis-a-vis Cuba or the Soviet Union will be examined within the context of the broader policy paper commissioned by the SIG. The extent and directness of these measures would be a major variable between Packages A and B.

RESOURCE IMPLICATIONS OF PACKAGES

It is not feasible at this time to project with precision the resource costs of pursuing courses of action along the illustrative lines of Package A or Package B; specific program proposals and detailed program costs will be prepared subject to NSC approval of the overall strategy.

Economic Assistance

The State Department estimates that the realistic U.S. share of additional outside resources necessary to begin to reverse the negative economic growth rates of Central America and the Caribbean (our "ALL-OUT" package) would be an increase

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of some \$410 million in official economic assistance in FY 1982. While any amount substantially short of that figure would be inadequate to start to turn the economic situation around, an additional U.S. economic assistance figure of \$250 million in FY 1982 (our "ENHANCED" package) could probably be presented in such a way as to provide strong evidence of U.S. resolve to support the economic development of the region.

A "Reagan Plan for Caribbean Basin Cooperation", if proven feasible after further study, could in the years beyond FY 1982 augment, or partially substitute for, U.S. official resource transfers to the region.

Security Assistance

Tentative estimates of additional security assistance and training in FY 1982 range from an additional \$76 million for Central America (and perhaps an additional \$5 million for the Caribbean islands) in an "ENHANCED" package to an additional \$110 million (plus \$10 million for the Caribbean) in an "ALL-OUT" package. The orders of magnitude are thus:

	FY 82 Package A "ENHANCED"	FY 82 Package B "ALL-OUT"
Additional Economic Assistance	\$ 250	\$ 410
Additional Security Assistance and Training	<u>81</u>	<u>120</u>
	\$ 331	\$ 530

The above figures (the tentative nature of which cannot be stressed too highly) do not include increased program and operational costs that would result from implementation of other measures and actions discussed in this paper.

IV. Conclusion

Regardless of level of effort, there are a number of initiatives we can and should take:

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-- emphasize our positive economic and political policies in consultation and information programs;

-- provide more economic assistance;

-- assure progress toward elections and reduction of military abuses;

-- lower our military presence profile in the fight against the insurgency; downplay the U.S. security contribution;

-- rationalize our military command arrangements in Latin America;

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These initiatives are needed not only to enhance our flexibility and credibility but to give us the capability to respond to unanticipated developments. The political climate at home and abroad for mounting a high-level counter-Cuban strategy must be developed. We must be prepared to act. What level we respond at is a policy choice; we must, however, have remedial steps to insure we possess the capacity to exercise that choice.

Lastly, there is no necessity of choosing either option in its entirety. Rather than viewing Package A and Package B as sharply different starting point levels, they can also be viewed as graduated steps, beginning with the moderate package without precluding eventual use of more stringent measures. Aspects of each can be blended, owing to preference or in some cases lack of resources. What is necessary, however, is that we fashion an integrated package and make the commitment to carry it out -- with resources, with Allies, with actions. Most important, we must decide how central a role to accord this decision in our foreign policy. Only with such a framework and consensus can we decide on more specific policy alternatives. With NSC approval of the recommendations on page 4 of the Executive Summary, we can proceed to develop detailed program proposals and specific cost estimates for NSC consideration.

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Policy Implementation Considerations

First Strategic Element: Measures in Central America
and the Caribbean to Control or Prevent
Armed Insurgency

SUMMARY

Of the possible courses of action identified in the basic paper under the First Strategic Element, this discussion addresses military materiel and training assistance to Central America and the Caribbean (CIA and DOD intelligence-related programs will be treated elsewhere). A basic assumption of this paper is that reasonable progress is being made on the other elements of the overall U.S. strategy for the region, particularly in reducing the inflow of Cuban support for insurgency.

Our principal conclusions are: (1) Upgrading of U.S. military materiel and training assistance to the region is an essential element in developing an effective long-term U.S. strategy for restoring stability in the area; (2) Total assistance costs resulting from an up-graded U.S. effort in Central America and the Caribbean will remain modest compared to other world trouble spots; (3) Nevertheless, priority attention in the budget process to the security needs of the area is necessary to assure that needed resources are not preempted by much larger programs elsewhere; (4) The security situations in Central America and the Caribbean are very dissimilar and require differentiated security assistance approaches; a common element is the need for concessional security assistance terms in most countries and flexible mechanisms which take into account the special characteristics of the individual countries; (5) Detailed program development and cost estimates will require interagency coordination in Washington and the active participation of our embassies in the area.

The summary table attached to this paper provides rough estimates of FMS and IMET projections for FY 82 and FY 83, as compared to the FY 81 base.

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SECURITY CHALLENGE AND RESPONSE IN
CENTRAL AMERICA

The security requirements of the region range from El Salvador's need to combat a full-scale insurgency, the outcome of which is uncertain, to Costa Rica's relatively non-violent, permissive environment which has lent itself to leftist and rightist operations aimed at other countries and, now, the beginnings of terrorism. Guatemala is dealing repressively and unsuccessfully with a low-grade insurgency; Honduras must cope with internal corruption and the flow of arms through its borders to the Salvadoran and Guatemalan insurgencies; and Belize is struggling to work out an acceptable independence formula which would also provide for its security. Nicaragua is treated separately in the basic strategy paper. Panama is a special case given the presence of American troops there to defend the Canal.

U.S. security assistance to Central America must be viewed in the context of the political climate of each country and the degree to which military forces are avoiding blatant abuses that alienate the civilian populations and poison the climate in the United States for the provision of security assistance. While we seek to avoid public condemnations and direct linkages between our security assistance programs and military abuses or political repression, we must impress upon recipient countries the inevitable inter-relationship of these factors.

Organizational, intelligence, and command and control deficiencies are at the root of Central American military problems. U.S. training, equipment and advice are crucial. In addition, the key role played by national guard/paramilitary units in rural villages and police units in the cities -- in the case of El Salvador and other countries -- point to the need to seek legislative adaptation or armed forces restructuring to facilitate training for these abuse-prone units and to orient them toward civic action, psyops, rallier programs, and informational activity designed to win popular support and undermine guerrilla strength.

Equipment requirements for Central America will be heavily influenced by the character and extent of insurgent offensive activity in the various countries, the type of weapons received by the guerrillas, and the nature of the

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military threat posed by Nicaragua. The sums of the projected FMS and IMET levels by FY 83 (strictly subject to more detailed study) for Central America are a modest \$50.0 million and \$4.07 million, respectively. In the event of unforeseen emergencies, consideration should be given to drawing from the \$100 million dollar MAP (grant) Special Requirements Fund, being requested of Congress for the first time in FY 1982. Another way to meet such emergencies would be to reprogram FMS credits to Central America or within Central America.

EL SALVADOR

The U.S. should continue to counter the foreign-supported insurgency through security assistance -- materiel and training -- to the Salvadoran forces.

To implement the programs, FMS credits over the next 2-3 years should be made available at about the same level as proposed for FY 82 (\$25 million), on concessional terms. These credits would be used to equip new units of the armed forces and to improve their mobility and counter-infiltration capabilities. IMET should be increased significantly from the FY 82 levels of \$1 million to \$1.5 million to upgrade the professional capabilities of the armed forces. Training programs should be shifted as rapidly as feasible from El Salvador to Panama or the U.S. U.S. military presence in the country should be reduced as quickly as possible consistent with achievement of training objectives. We must keep in mind the potential need for higher levels of assistance and training if there occurs an unexpected deterioration.

HONDURAS

The U.S. security assistance should upgrade Honduran counter-insurgency and counter-infiltration capabilities to stem the flow of materiel to El Salvador and to defend Honduras against internal security threats.

In support of these objectives, FMS credits should for the next 2-3 years be increased above current modest levels (\$10 million in FY 82) and made on concessional terms. IMET training should be increased from \$.7 million in FY 82 to \$1.0 million in FY 83. The recommendations of the proposed border surveillance MTT will be useful in planning both training and materiel assistance.

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COSTA RICA

A detailed survey of Costa Rican security needs and the most effective way for the U.S. to promote the professionalization of Costa Rican security forces is necessary. IMET training should be expanded from \$.06 million in FY 82 to \$.3 million in FY 83 and redirected to intelligence, border patrol and counter-infiltration techniques. FMS credits have not been sought or offered in recent years. We would expect a review of Costa Rican security needs to result in a modest one-time requirement (say \$5 million for contingency planning purposes) for concessional FMS which, if realized in FY 82, would have to be reprogrammed from other countries. The possibility of requirements in follow-on years would be kept under review.

Guatemala

Assuming Guatemala meets our political conditions for resumption of U.S. security assistance, we anticipate an FMS requirement of \$5-million in FY 83 and beyond in the area of transportation and communication equipment and parts. Training programs are needed in the areas of planning, communications, counter-insurgency and civic action, etc. An FY 83 IMET level of \$700,000 is recommended with an increase to \$1 million in FY 84 and beyond.

Belize

While we should urge the British to retain primary responsibility for Belize's security even after independence, we should begin to establish a security relationship with a small \$60,000 IMET program in FY 82 and beyond.

PANAMA

By an exchange of notes at the time of the Treaty, we are committed to providing up to \$50 million in FMS credits over a ten-year period. Panama has so far showed no urgency to utilize the credits. While there are no immediate security threats in Panama, a GOP estrangement from Cuba, which may now be developing, could give birth to leftist dissidence. Until Panama undertakes requisite force planning, FMS planning levels of \$5 million annually beginning in FY 82 and

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beyond seems adequate, but will have to be increased in later years to meet our ten-year commitment by FY 84. IMET programs at the FY 82 level of \$500,000 should be adequate for future years.

MATERIEL AND TRAINING ASSISTANCE FOR THE CARIBBEAN

Unlike Central America, active insurgency is not currently a problem in the Caribbean. Potential threats could develop in Jamaica and in the Eastern Caribbean, and over the longer term are possible in Haiti and perhaps the Dominican Republic. Apart from social and economic conditions, addressed elsewhere in the basic paper, the primary security problem is the sorry state -- bordering on non-existence, in some cases -- of government security forces in the smaller EC islands. With some individual exceptions, security forces in the region generally lack equipment, cadre, training, leadership and organization. And they lack the resources to correct these problems. The objective of U.S. security and training assistance is to assist the development on each island of basic security force capabilities to permit them to cope with low-level threats that could develop. Substantial programs are already underway in the Dominican Republic and Barbados; limited programs are in progress in Haiti, Jamaica, Guyana and Suriname; and assistance is planned for the Eastern Caribbean (see table).

For most of the countries of the region, former colonial powers (the UK, Netherlands and France) have primary interest in and responsibility for internal and external security. Canada and Venezuela also have provided limited security assistance. The USG effort should augment -- but not replace -- the security support provided by these other nations.

The U.S. needs to increase substantially (from very low or minimal existing levels) FMS credits (the terms must be concessional in most cases to be useful) and IMET training, with programs for individual countries developed with our Embassies and host country governments to address specific needs. Security cooperation among the Eastern Caribbean islands should be encouraged to the extent possible. In this regard, the more developed and sophisticated countries (e.g. Jamaica, Barbados, Trinidad and Tobago) could perhaps play key roles in training the security forces of the smaller islands. Also, we wish to continue our efforts to encourage cooperation in the Eastern Caribbean on Coast Guard capabilities.

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A continuing problem related to the provision of security assistance to several islands is the prohibition under U.S. law against providing FAA-funded assistance to police forces. None of the independent Lesser Antilles islands (except Barbados) have defense forces: they depend on ill-trained and ill-equipped constabularies for both internal and external defense. We have received a legal ruling that the U.S. can provide equipment to police units and training to individual policemen provided the units or individuals are performing clearly non-police functions, such as a coast guard function. However, the restrictions and conditions we are obliged to impose upon recipient governments to assure compliance with the intent of U.S. law are cumbersome and to some degree demeaning to the governments. Moreover, there is a real need to upgrade the capabilities of the constabularies in their nonpolice functions. There are five options for treating this issue: (1) going for repeal of Section 660 of the FAA preventing assistance to police forces; (2) getting an exception for Caribbean Basin countries or countries worldwide that lack separate defense forces from the purview of Section 660; (3) getting an exception to 660 for assistance limited to anti-terrorist training and equipment; (4) continuing to work within the confines of existing legislation, inter alia using funds from sources other than FAA [redacted]

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Obviously, in the short term we are limited to Option 4. Even within that limitation, we might consider encouraging the smaller states to establish separate anti-terrorist, internal security units which would not have on-going civil law enforcement responsibilities, and which we could therefore assist. We would still have to consider whether the UK or some U.S. agency would be better qualified to provide training to such a unit.

FMS and IMET levels for most of the Caribbean states would, given their tiny sizes and populations, be exceedingly modest, even after a sharply upgraded effort. Programs in the relatively larger (but still small) countries of the Dominican Republic, Jamaica, Haiti, the Bahamas and, perhaps, Suriname and Guyana could be more substantial. Even so, we estimate that for all the Caribbean countries, FMS and IMET levels by FY 83 would be, respectively, \$22.5 million and \$2.12 million.

Finally, the political situations in Haiti, Guyana and Grenada pose special problems requiring their consideration in elaborating detailed program proposals.

Attachment:

Summary Table on FMS and IMET levels

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COUNTRY	FY 81 EST.	FY 82 (Requested)	FY 82 (Enhanced)	FY 83 (Proposed)
<u>Central America</u>				
Costa Rica	-	-	5.0 (5.0)	-
El Salvador	10.0	25.0 (17.0)	-	25.0 (25.)
Guatemala	-	-	-	5.0
Honduras	5.0	10.0 (4.5)	-	15.0 (8.)
Panama	-	5.0	-	5.0
<u>Sub Total</u>	15.0	40.0 (21.5)	5.0 (5.0)	50.0 (33.)
<u>Caribbean</u>				
Bahamas	-	1.0	-	1.0
Dom. Rep.	3.0	7.0 (4.0)	-	9.0 (6.)
*Eastern Caribbean	5.0	7.5 (4.5)	-	10.0 (10.)
Haiti	.3	.3	-	.5
Jamaica	1.5	1.0 (1.0)	-	2.0
<u>Sub Total</u>	9.8	16.8 (9.5)	-	22.5 (18.)
<u>TOTAL</u>	24.8	56.8 (31.)	5.0 (5.0)	72.5 (51.)

*Includes Barbados, Dominica, St. Lucia, St. Vincent

() = Direct FMS Credit on Concessional Terms

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COUNTRY	FY 81 (est.)	FY 82 (Requested)	FY 82 (Enhanced)	FY 83 (Proposed)
<u>CENTRAL AMERICA</u>				
Belize	-	-	.06	.07
Costa Rica	.03	.06	-	.3
El Salvador	.44	1.	-	1.5
Guatemala	-	-	-	.7
Honduras	.53	.7	-	1.0
Panama	.39	.5	-	.5
Sub Total	1.39	2.26	.06	4.07
<u>CARIBBEAN</u>				
Bahamas	.04	.06	-	.06
Barbados	.08	.1	-	.2
Dominica	.03	.06	-	.06
Dom Rep	.42	.6	-	.8
Guyana	.02	.04	-	.05
Haiti	.11	.41	-	.5
Jamaica	.05	.07	-	.15
St. Lucia	.05	.06	-	.1
St. Vincent	.04	.06	-	.1
Suriname	.03	.07	-	.1
Sub Total	.07	1.53	-	.1
<u>TOTAL</u>				2.12

Policy Implementation ConsiderationsSecond Strategic Element: Sections Calling for
U.S. Support for economic Development and
Caribbean Basin CooperationSUMMARY

The basic paper describes the need for increased U.S. and international economic assistance to Central America and the Caribbean to attack economic and social root causes of insurgency and to achieve maximum political, psychological and propaganda impact. It also introduces the concept of a Caribbean Basin Cooperation Agreement to strengthen the links of the small Central American and Caribbean economies to the markets of North America.

This paper summarizes the latest draft of a Caribbean Basin initiative being developed within the State Department in consultation with AID. While not yet in agreed final form, the paper provides an indication of how U.S. policies could forward broad U.S. strategy in the trade, assistance, and economic cooperation areas. Basically, the proposal envisions the development of a Caribbean Basin Cooperation framework which could be announced in principle in a meeting of the Chiefs of State of the U.S., Canada and perhaps Venezuela and Mexico. Following further consultations and negotiations by a steering committee composed of key donor and recipient countries, a Caribbean Basin Summit of donor and recipient heads of state would be called to approve the agreement framework. The proposed framework would encompass mechanisms for (a) a phased movement to one-way free trade beginning with U.S. and Canadian extension of GSP to all eligible products; (b) some guarantee of private foreign and domestic investment against expropriation, war and civil disorder risks by the developed and developing states of the area; and (c) increased official capital flows for balance of payments support and implementation of key projects. The recipient countries for their part would commit themselves to adhere to sound economic programs (with IMF endorsement), support for economic and political pluralism, and guarantees against arbitrary or confiscatory expropriation of foreign investment. In addition to new departures in U.S. trade policies, the initiative would also require substantially increased U.S. economic support (ESF) and development assistance as part of broader multinational efforts. End summary.

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PROGRAM AND STRUCTURE OF THE CARIBBEAN BASIN PLAN

A United States undertaking, along with other nations, to pursue a broad effort to enhance the economic development of the Central American and Caribbean countries is essential to strengthen democratic institutions and prevent future insurgencies, political unrest, and migration surges. Such an initiative would also make a major psychological impact on the region by demonstrating our long-term commitment to it.

a. Program

A Caribbean Basin development initiative (covering Central America and the Caribbean islands plus Guyana and Suriname) would contain three mutually reinforcing elements: (a) a phased movement to one-way free trade (with appropriate safeguards), beginning with U.S. and Canadian extension of GSP to all eligible products, (b) guarantee of private domestic and foreign investment against expropriation, war, and civil disorder risks, through existing official OPIC-like insurance organizations, or a new regional mechanism, and (c) increased official capital flows for balance of payment support and key project assistance. These measures would be supplemented by development-oriented cooperation in the education and informational areas. If successful, the net effect of the development initiative would be to increase agricultural, industrial, and service sector productivity and output of most countries of the region to levels generating income sufficient to permit self-sustained growth within the next ten-fifteen years.

Simultaneously, the problem of growth-created social and economic dislocations and acute deprivation -- potentially spawning, and exploitable by, Marxist-Leninist groups -- could be attacked through targeted programs aimed at maintaining the integrity and standard of living of rural households, encouraging basic food production, and reducing urban un- and underemployment through promotion of productive activities.

b. Political Considerations

A Caribbean Basin development initiative would provide several political payoffs: (a) fundamental causes of instability would be addressed; (b) economic and political pluralism would be strengthened; (c) other nations, including

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some uncomfortable with our Central American military role, would be involved with us in a broadly acceptable regional action; (d) means would be available to underline the desirability of alignment with the United States and of commitment to democracy and pluralism; (e) basic causes of migration would be addressed as a supplement to tighter U.S. immigration controls, and (f) a partial response on North-South issues would be provided coincident with President Reagan's attendance at the Cancun Summit.

Our capacity to reward and, when appropriate, deprive specific states involved in the development scheme would be maintained by implementing our assistance and trade preference commitments on a country-by-country basis. While we propose to use the tools of conditionality and selectivity judiciously and with caution, we believe it important to retain the flexibility to use these mechanisms to promote our broad interests in the region. Implementation agreements could contain both annual review and termination provisions. The participation by other states and some multilateral institutions in the scheme might, of course, provide some help to unfriendly countries and limit the impact of any application of U.S. economic constraints. Nonetheless, very significant U.S. unilateral constraint options would exist. Indeed, the opportunity costs for states troublesome to us would be far more severe than at present.

c. Scenario for Implementation

The basic notion of a Caribbean Basin development initiative could be raised first by President Reagan with Mexican President Lopez Portillo. President Reagan could suggest that, following up on the Mexican-Venezuelan petroleum arrangement and other suggestions for regional development cooperation, he and Lopez Portillo, plus Trudeau and Venezuelan President Herrera Campins, might usefully get together in a Quadrilateral Meeting at the end of the summer (after the Ottawa Summit) to discuss the possible shape of a development initiative covering the small countries of the region. The Quadrilateral Meeting would work up a framework arrangement outlining possible general commitments that could be offered by individual donors in the fields of aid, trade, and investment and the nature of the obligations that would be asked of recipients in the investment and economic policy areas. We hope that Mexico will be receptive to cooperating in Quadrilateral sponsorship of Caribbean Basin Cooperation; should Mexico not wish to participate, however, we would plan to proceed without her.

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Following the proposed Quadrilateral Meeting, a consultation/negotiation process could be undertaken by a steering committee composed of key donor and recipient states (perhaps headed by a distinguished Canadian) which would seek to shape a generally acceptable consensus for endorsement at a Caribbean Basin donor/recipient heads-of-state meeting. This Caribbean Summit, which could be called, for example, by Jamaican Prime Minister Seaga, would constitute the culmination of the negotiating process and would approve a general framework in which donors and recipients would commit themselves in the areas referred to above.

Implementation of the programs would occur at various levels: individual donors and recipients would negotiate bilateral agreements specifying their reciprocal commitments (this would be the focus and political core of U.S. assistance efforts in order to provide us with effective leverage); a Caribbean Basin-wide conference would be held to form the mixed, private/public regional investment insurance firm; and, to supplement the Caribbean Group for Cooperation in Economic Development (CGCED), a second IBRD-led development group would be formed for Central America to provide a similar sub-regional focus on Central American economic and development problems. An annual ministerial-level Caribbean Basin review meeting could be held to review priorities and policy issues.

Throughout the period during which the Caribbean Basin cooperation concept is being developed and negotiated, the U.S. will need to consult periodically with leading South American countries not included within the scheme to seek their understanding and consider ways to be responsive to their problems.

TRADE AND INVESTMENT FEATURES OF THE CARIBBEAN BASIN PLAN

We propose a two-pronged initiative using trade measures to benefit the countries of the Caribbean Basin and to link them more closely to the Western economic system, particularly to the markets of North America. Those steps in broad terms are:

1. The eventual creation of a one-way free trade zone giving products of the Caribbean Basin countries access to the U.S. market on a preferential, non-MFN basis:

— We would commit ourselves in principle to granting unrestricted access for all Caribbean Basin products. Free access could be achieved over a brief transition period, longer for sensitive products;

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-- To extract maximum economic benefit from such a scheme, we might condition it upon an agreement among Caribbean Basin countries to liberalize trade gradually among themselves, and to open their markets over time to foreign competition.

-- Appropriate safeguards would have to be established to maintain control over the benefits and costs of the scheme, particularly to avoid use of Caribbean countries as trans-shipment points and to protect ourselves against sudden surges causing injury to a sensitive U.S. industry.

2. While we were laying the groundwork for a one-way free trade area through a process of consultation and negotiation, which could take one or two years, we could take steps to reduce trade barriers immediately as part of an undertaking by recipient countries at the initial Caribbean Basin Summit meeting to commit themselves to Caribbean cooperation and corresponding benefits and obligations. We could move quickly to:

-- extend special textile benefits, either through discounts or exceptions from quotas for apparel imported into the U.S. under TSUSA or through giving the Caribbean Basin countries higher than MFA Annex B growth rates or base levels, and/or more flexibility in the use and negotiation of quota restraints:

-- We could consider adding to the 2800 (of 7000 possible tariff line items) items currently eligible for GSP. We could designate these additions as being solely for the Caribbean Basin countries, as provided for under international trading practices.

-- We could take advantage of currently existing authority, which is quite limited, to grant tariff reductions on an MFN basis, or we could go to the Hill for additional congressional authority;

-- We could eliminate the tariff on sugar and reduce or eliminate the variable fees which may be assessed on sugar.

With regard to investment, we would seek to develop two mechanisms to promote private investment in the region: (a) a regional treaty of investment rights and duties, including non-discrimination, nationalization only with due process, and convertibility, and (b) a new means of regional insurance of at least some domestic as well as foreign investment against expropriation and political risk. Trade concessions could not be extended to those countries that do not participate in the regional treaty.

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CARIBBEAN BASIN PLAN: CAPITAL REQUIREMENTS

The Caribbean Basin is in the midst of a period of serious economic decline. Without major changes in economic policy, supported on one hand by measures to increase productivity and exports, and on the other by substantial external financial assistance, that decline will continue and intensify. U.S. and other donors can help to identify and remove existing local constraints on investment and productivity. We can also stimulate investment by providing expanded access to the U.S. market and by developing mechanisms to reduce the risk of new investment (as discussed above). Each of these steps, although important, will be difficult to implement and slow to take effect. In the interim, the magnitude of Basin financial needs, and the undeniable political and short-term economic costs of necessary domestic economic reforms, point to a critical need for major additional economic assistance.

Drawing upon the precedent of the Caribbean Group for Cooperation in Economic Development (CGCED), we should seek the formation of a multilateral consultative group on Central America. Under the leadership of the World Bank and IMF, the Group would encourage an expanded, coordinated donor effort in the context of sound economic adjustment programs. As discussed below, the group would need to undertake a substantial expansion of balance of payments assistance to key Central American countries to support moderate improvement from projected economic growth rates. Support for development assistance projects would need to be expanded to address basic structural problems.

1. Balance of Payments Assistance:

Increased balance of payments support must be provided in the context of economic programs supported by the IMF and IBRD which establish realistic growth targets, fiscal restraint and economic policy adjustments.

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Our projections indicate that those countries which can reasonably be expected to be operating under IMF programs (Costa Rica, El Salvador, Honduras, and the Eastern Caribbean) would collectively face annual financing gaps of between \$400 million and \$500 million annually in the first three years of the initiative.* This gap represents the additional foreign exchange which would be needed to finance imports to support modest increases in projected economic growth rates for Central American countries (from negative two percent to plus one percent in the case of Costa Rica and El Salvador). The gap projection is a crude one and would vary depending on changes in import prices, the degree of internal economic adjustment, and the responsiveness of private capital flows. Specific growth targets, adjustment measures, and recommendations for balance of payments assistance would be made by the consultative group in the context of IMF/IBRD programs.

The projections do indicate the general magnitude of the financing gap which the U.S. must be prepared to help bridge if increased economic growth in the first years of the program is to be achieved.

In order to help bridge this financing gap as part of a multilateral effort, the U.S. will need to increase ESF allocations by about \$200 million per year above current budget projections.

* In addition to increased U.S. contributions of balance of payments assistance, to facilitate short- to medium-term adjustments, AID could conceivably increase new project funding over the FY82 CP levels by approximately \$125-\$225 million annually by concentrating on the structural problems described above. This additional annual requirement is not included in the congressional presentation for FY 82 or in AID's budget planning to date for FY83. These investments would be required to provide the basis for continuing growth in the area and to spread further the benefits of that growth to help meet our political objectives.

* Jamaica's IMF program would continue, but is virtually fully financed and would not require incremental donor balance of payments assistance. Other Basin countries are unlikely to seek IMF support due to political/historical or economic policy reasons, and may not be claimants on donor balance of payments assistance.

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Increases above that level would likely encounter serious institutional absorptive capacity constraints in many countries of the region. In some countries it would take several years before the implied increases could be achieved, while greater amounts could be absorbed now in others, reducing outyear needs. AID manpower constraints would also be a serious limiting factor. A doubling of development project assistance would require a minimum of 20-30 new positions and could go above that.

In the Central American/Caribbean region sound strategies exist and economic analyses have been done on each country which would justify the application of substantial increments of both program and project assistance. AID planning documents prepared in anticipation of the FY 1983 budget request have established a basic development assistance framework. The primary effect of making available additional amounts of flexible financing would be to speed the pace and impact of implementation of the strategies proposed in AID's planning documents and to open up some important additional assistance intervention options.

Increases in AID project financing would be directed toward key structural constraints to expanding production and employment. Major emphasis would go to programs that would stimulate agricultural production, develop exports, find energy alternatives, and encourage private-sector initiatives. Special attention would also be given to training at all levels, (not only by AID but also by USICA and State CU) to expand absorptive capacity for increased development resource flows.

FINAL NOTE: Obstacles to Overcome

There are a number of very significant obstacles to be overcome to implement this development initiative. While not insurmountable, all represent substantial problems. These obstacles include: (a) significant domestic opposition to U.S. trade concessions, particularly in sensitive industries; (b) economic constraints on increased U.S. official capital flow to the region; (c) U.S. trade union opposition to the "export of jobs;" (d) Puerto Rican concern over its relative trade and investment-attracting position; (e) Mexican

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fears over Caribbean competition in the U.S. market; (f) resistance by several countries (Guatemala, the Dominican Republic, for example) to undertaking commitments to adhere to IMF conditionality; (g) recipient state resistance to undertaking investment protection commitments; (h) latent tensions among the Central American and Caribbean states themselves, and (i) donor country differences of view on the Central American situation.

The Administration will have to exert major diplomatic and political efforts to implement this development initiative. The pay-offs for American interests will be great, however, if the initiative is successful.

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